

Nuziveedu Seeds Limited

February 04, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	50.00 (Reduced from 200.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Total Bank Facilities	50.00 (Rs. Fifty Crore Only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Nuziveedu Seeds Limited (NSL) takes into account healthy growth in total operating income and profitability margins during FY20 (refers to period April 01 to March 31) and healthy gross cash accruals leading to controlled working capital utilization. Further the ratings continue to derive strength from strong and experienced Promoters, supported by professional and qualified management, strong Research & Development (R&D) facilities, existence of own germplasm; which is the major raw material for hybridization process, strong & efficient marketing network, geographically diversified product portfolio albeit revenue concentration towards cotton seeds, and adequate liquidity. However, the ratings are constrained by uncertainty of the outcome of ongoing arbitrage case between NSL and Mahyco Monsanto Biotech (India) Limited (MMBIL) pending with Bombay and Delhi high court although the impact of the same on liquidity profile of the company to remain limited considering both the factors i.e. NSL already depositing majority (approx. 72%) of the expected liability with various judicial authorities and healthy cash flows generated by NSL as against the additional funds that it may need to deposit with judicial authorities over and above which is already being deposited. Further, the rating continues to be tempered by elongated operating cycle and dependence on vagaries of nature.

Rating Sensitivities
Positive Factors

- Improvement in the PBILDT margins over 22% on a sustained basis.
- Maintaining total operating cycle consistently below 180 days.

Negative Factors

- Overall gearing going beyond 0.75x on sustained basis.
- To undertake the capex by utilizing the internal accruals or any further investment in subsidiaries or associate companies from the cash flows generated from the company causing strain on liquidity.
- Significant additional cash outflow arising out of the ongoing arbitrage case.

Detailed description of the key rating drivers
Key Rating Strengths
Healthy growth in total operating income and improved profitability margins during FY20:

Total operating income (TOI) of the company at consolidated level improved to Rs. 860.08 crore in FY20 (a growth of 12.86% vis-a-vis nil growth during FY19). Though the average price per packet of the cotton seeds (which contributes 49.98% of TOI during FY20) has declined marginally, the company has sold packets of 71 lakh seeds as against 65 lakhs packets during FY19. Further, the average price realizations from other segments such as vegetable seeds and field crops (which include Paddy) have improved during the year. PBILDT margin of the company at consolidated level has improved by 476 bps from 15.26% in FY19 to 20.02% in FY20 owing to better realization price realization. Further, the company shifted to Genetic Male Sterility (GMS) production process which will help in reducing the cost of hybrid seed production by eliminating the process of emasculation. Earlier the seed cost was high due to high cost of hand emasculation and pollination as it has to be done manually. This resulted in improved profitability margins during FY20. Further even the PAT margins also improved to 14.04% from 12.32% during FY19 due to better absorption of fixed interest and depreciation cost.

Stable and comfortable financial risk profile

Overall gearing of the company at consolidated level remained stable at 0.29x as on March 31, 2020 as against 0.23x as on March 31, 2019. Though the working capital borrowing are Nil as on March 31st, 2020 the overall debt increased on account of lease liability to the tune of Rs.4.4 crore, short term loan of Rs.53.10 crore from Mandava Holdings Private Limited(Holding company) towards working capital requirements and debentures of Rs.13.92 crore issued to Mandava Holdings Private Limited and LRD loan of Rs.27.00 crore. Total debt to GCA has deteriorated marginally to 0.57x as on March 2020 as against

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

0.37x as on March 31, 2019. PBILDT interest coverage ratios though deteriorated remained comfortable at 10.82 times during FY20 against 12.45 times during FY19. The decline is due to additional debt availed from the holding company to the tune of Rs.53.10 crore which interest bearing in the range of 10.30%- 12%.

Strong and experienced promoters

NSL group is an established South India based industrial house being promoted by Mr. M Prabhakara Rao who has more than two decades of experience in the seed business and has been on advisory board of several major seed industry associations operating in the country. He is also the seed industry representative on Cotton Advisory Board. NSL group has diversified business portfolio with presence in hybrid/open pollinated seeds, cotton ginning & pressing, textiles, sugar, real estate infrastructure, power (wind, hydel and biomass).

Established track record supported by professional and qualified management

NSL group has about three decades of presence in the Indian Seeds industry. Cotton hybrid seeds are the major products and NSL has about 260 varieties of approved hybrid commercial cotton seeds out of 641, approved by the Genetic Engineering Approval Committee (GEAC) under the Ministry of Environment & Forests, Govt. of India. NSL has a professionally managed board. It is governed by a seven member board with three of them belonging to the promoter's family, one whole-time director and three independent directors. All the directors are highly qualified professionals with long industry experience. The board is further assisted by qualified professionals down the hierarchy.

Strong R&D facilities

NSL has well equipped R&D facilities comprising biotechnology, seed testing and quality testing labs at more than six locations in the country. The main research centre located at Kompally, Hyderabad is accredited by the International Seed Testing Association. Besides, the company has multi location trial centres, Grow out Test (GoT) farms (spread across 450 acres) to test the genetic purity of a seed sample. NSL also has in place collaboration with crop research institutes viz. IRRI Philippines, NDSU USA, Plant research international – Netherlands, CAMBIA – Australia, Indian Council of Agricultural Research, International Crop Research Institute for the Semi-Arid Tropics (ICRISAT), etc. which facilitates research activities. Besides, NSL has 11 seed processing units which facilitate increased operational efficiency. The company focuses its R&D efforts on developing new products as well as addressing gaps in technology by integrating traditional breeding techniques and modern technology. The company emphasizes on higher yields, product quality, insect and disease tolerance, drought tolerance and expedient results.

Strong & efficient marketing network

The company has strong sales & marketing network consisting of 10 regional office, 7 Carrying & Forwarding (C&F) agents, 6830 distributors and more than 65,000 dealers & sub-dealers spread across 17 states of the country. Besides, NSL has tie up with various agricultural institutions and has partnered with several institutions viz. Krishak Bharati Cooperative limited, ICRISAT, National Seed Corporation, ITC, Hariyali and Coromandel International Limited to increase its presence.

Existence of own germplasm

The major raw material for hybridization process is germplasm (stored as seed collection). Once desired traits are achieved, the hybrid seeds are multiplied by cultivating them in fields. NSL has developed its own germplasm for the different varieties of hybrid seeds.

Geographically diversified production centres

The production centres of NSL are geographically diversified across various states in India for different crops. Currently, the company produces seeds in states like Gujarat, Andhra Pradesh, Telangana, Odisha, Maharashtra, Tamil Nadu and Uttarakhand which are located in different agro-climatic zones of the country. This diversification helps the company to mitigate risk to a certain extent if there is any disturbance in production of seeds on account of vagaries of monsoons. The seed production area of the company is spread over in about 95,000 acres with about 98,000 seed growers across India having partnered with the company in producing seeds.

Geographically diversified product portfolio albeit revenue concentration towards cotton seeds

NSL has presence in about 17 states in the country and the revenue is diversified across all the states with Madhya Pradesh, Telangana, Maharashtra, Uttar Pradesh and Andhra Pradesh together contributing around 46.09% of total sales in FY20 as against 50.82% of total sales in FY19. Further, NSL derives major proportion of its revenues from cotton segment and is the largest player in cotton segment in the country. However, the company has strong presence in other segments such as vegetable seeds and field crops which include Maize, Paddy, Wheat, Bajra, Jowar etc. The revenue contribution from the cotton seeds has been reducing year on year. Hybrid cotton seeds (BT I & BT II) constituted about 49.98% of sales in FY20 (as against 52.06% of sales in FY19). However, the company is increasing its focus on other crops and is strengthening research efforts on paddy, maize and sunflower crop seeds. Nevertheless, cotton would continue to dominate the product portfolio of NSL for short to medium term.

Adequate Liquidity

During FY20, liquidity profile of the company remained adequate with current ratio of 1.00 as on March 31, 2020. Average monthly fund-based working capital utilization was moderate at around 33% for last twelve months ended September 2020. As the company has been meeting its day to day operations largely through internal accruals, the sanctioned working capital limits has reduced from Rs. 440 crore in FY16 to Rs. 12.00 crore during H1-FY21. The demand for the products is high during

crop sowing season and NSL being at beginning of the agricultural value chain it has to stock inventory before the beginning of harvest season, thereby increasing the working capital requirement during Q3 and Q4 of the financial year. The company is in discussions with the existing lenders to enhance its working capital limits from Rs. 12.00 crore to Rs. 50.00 crore. Further, the total debt obligation during FY21 is Rs. 2.14 crore and the company has repaid Rs. 1.06 crore till H1-FY21 from internal accruals.

Key Rating Weaknesses

Elongated operating cycle

Operating cycle of the company at consolidated level has improved from 210 days during FY19 to 200 days during FY20 owing to decrease in average inventory and collection period from 307 days and 32 days during FY19 to 294 days and 28 days during FY20 respectively. However, average inventory holding days still remains on the higher side at 294 days during FY20 as the company has to maintain huge inventory during Q4 of the financial year in order to sell them during beginning of Kharif season (June to October) and also to mitigate the risk arising from unexpected unseasonal vagaries of monsoons. As on March 31, 2020, the company had Rs. 112.21 crore of debtors outstanding.

Dependent on vagaries of nature

The business of NSL is seasonal and extremely dependent on the rainfall and other climatic conditions (necessary for cultivation of cotton and other crops). Cotton seed, the major revenue earner, is an agricultural seasonal commodity with major portion of revenue (about 65%) accruing during the first quarter of the year. As such the profitability is susceptible to crop failure in any particular season. However, the company has presence in about 16 States and in areas which are well irrigated which insulates it against the monsoon risk to a certain extent.

Ongoing dispute with Monsanto and impact on liquidity profile of the company

There is an unsettled dispute with Monsanto w.r.t cancellation of Bt II cotton trait with the Bombay high court and this apart, the company is also under litigation with Monsanto for arbitration and the case is pending with Delhi high court. On March 07, 2019, the Bombay High Court has asked Nuziveedu Seeds Ltd (NSL) and its subsidiaries to deposit a sum of Rs. 138.19 crore in cash or furnish bank guarantees with respect to the ongoing arbitration case between NSL and Monsanto. Further on June 27, 2019 the Arbitration Tribunal in case of Delhi Arbitration has given an award of Rs.34.09 crore along with interest in favour of MMBL. NSL group filed an appeal against this arbitration award and deposited the Majority Award amount of Rs.34.09 crore with Honourable court of Delhi. The matter is pending adjudication as on date. NSL group in total deposited Rs.172.2 crore with Bombay and Delhi High Court during FY20 from internal accruals. For financial years subsequent to March 31st, 2016, the group paid trait fee as per the price notifications issued by the Government till the validity period of the Patent i.e. November 03, 2019.

The overall trait fee payable is to the tune of Rs.239.61 crore at consolidated level as per the Bombay and Delhi high court judgements. NSL has started providing for provision in the books and already deposited Rs.172.2 crore during FY20 with respective High courts and awaiting judgement. NSL already deposited major portion (72% approx.) of the award amount with the Courts and additional fee that NSL may have to pay is to the extent of Rs.67.31 crore in case the judgement is ruled against NSL, however the impact of the same on liquidity profile is insignificant considering the healthy cash accruals generated by it.

Liquidity: Adequate

Liquidity of the company remained adequate with company expecting to generate over of Rs.150 crore of cash accruals against negligible repayment obligations of Rs.2.14 crore during FY21. The company has liquid investments to the tune of Rs.4.8 crore as on March 31st, 2020. With a gearing of 0.29 times as of March 31, 2020, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Further the average utilization of working capital limits remained low at 33.00% during the past 12 months ending September 2020 which is providing adequate unutilized bank lines to meet its incremental working capital needs over the next one year. The company did not avail moratorium provided under COVID-19 regulatory framework.

Analytical approach: Consolidated; Consolidated financial statements based on financials of NSL, its subsidiaries as provided namely Pravardhan Seeds Private Limited, Yaaganti Seeds Private Limited, Prabhat Agri Biotech Limited, Asian Agri Genetics Limited, Fortune Hybrid Seeds Limited, Jubilee Real Projects (India) Private Limited, Global Agrigenetics India Private Limited, Topnotch Projects Private Limited, PT Nuziveedu Indonesia and its associates namely Swarnabharat Bio-technics Private Limited and Swadeshi Bio-technics Limited are considered.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)
[Rating Methodology for Consolidation and factoring linkages in Rating](#)
[CARE's Policy on Default Recognition](#)
[Liquidity analysis of Non-Financial Sector Entities](#)
[Rating Methodology- Manufacturing Companies](#)
[Financial Ratios- Non-Financial Sector](#)

About the Company

Nuziveedu Seeds Ltd. (NSL) incorporated in March 2008 belongs to NSL Group of Hyderabad. NSL group was promoted by Mr. M Prabhakara Rao who has more than three decades of experience in the seed business and has been on advisory board of several major seed industry associations operating in the country. NSL is engaged in production, processing and selling of hybrid/open pollinated seeds of various crops and (cotton, maize, paddy, jowar, bajra, sunflower, wheat, mustard, etc) and vegetables (brinjal, chillies, tomato, ladyfinger and cabbage). NSL is the subsidiary of Mandava Holdings P. Ltd, which is an NBFC with core business of investment in group companies. NSL is an established player in the field of hybrid seed development & processing with more than three decades of experience in the segment. Besides, the group has presence in manufacturing of sugar, cotton ginning & pressing, generation of power (wind, hydro and biomass), real estate development, etc.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	762.04	860.08
PBILDIT	116.27	172.18
PAT	93.90	120.72
Overall gearing (times)	0.23	0.29
Interest coverage (times)	12.45	10.82

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	50.00	CARE A+; Stable	-	1)CARE A; Stable (10-Dec-19) 2)CARE A+ (Under Credit watch with Negative Implications) (17-Oct-19)	1)CARE A+; Stable (29-Mar-19) 2)CARE A+; Stable (02-May-18) 3)CARE A+; Stable; ISSUER NOT COOPERATING* (03-Apr-18)	1)CARE A+; Stable (06-Apr-17)

2.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (10-Dec-19) 2)CARE A+ (Under Credit watch with Negative Implications) (17-Oct-19)	1)CARE A+; Stable (29-Mar-19) 2)CARE A+; Stable (02-May-18) 3)CARE A+; Stable; ISSUER NOT COOPERATING* (03-Apr-18)	1)CARE A+; Stable (06-Apr-17)
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Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr No	Name of instrument	Complexity level
1.	Fund-based - LT-Cash Credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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